



BRIEFING: AUGUST 2011 BOARD MEETING AGENDA ITEM #4

TO: Chairman Umberg and Committee Members

FROM: Roelof van Ark: CEO / Jeff Morales / Kurt Ramey

DATE: August 19, 2011

RE: Update on Business Plan and Funding Plan

Background

The California High Speed Rail Authority is required to submit an updated Business Plan to the Legislature by January 1, 2012 and a Funding Plan for the first “usable segment” of the system in anticipation of the appropriation of state bond proceeds. The Authority is scheduled to release a draft of the 2012 Business Plan for public comment and to submit its initial Funding Plan, both in early October 2011. Although these documents are required pursuant to separate provisions of law, they are being developed in tandem. Below are updates on each of these documents.

Business Plan

At the July meeting, the Board received an update on a phasing plan being developed as part of the 2012 Business Plan. The July update was one in a series covering various topics being addressed in the 2012 Business Plan. This month the update covers the following additional topics:

- Economic impact
- Business model options
- Funding and financing strategies

Funding Plan

The Authority intends to request the investment of bond proceeds from the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century (the Bond Act) for development of the first phase of the system. This will commence with the initial construction section (the ICS) in the Central Valley, as previously approved by the Board.

Within the Bond Act provisions, Streets and Highways Code section 2704.08, subsection (c) establishes requirements for the Authority to submit a Funding Plan prior to making a request for appropriation of bond proceeds for certain purposes. The Funding Plan must be submitted to the Director of Finance, the Authority’s Peer Review Group, as well as the policy committees with jurisdiction over transportation matters and the fiscal committees of both houses of the Legislature.

The Funding Plan is scheduled to be submitted by October 10, 2011, 90 days prior to release of the Governor's Budget for fiscal year 2012-13. Therefore, the Authority will need to approve the Funding Plan at its early October meeting.

Discussion

Business Plan

As noted above, this month's update on the 2012 Business Plan covers the following topics, which will be presented in turn:

- Economic impact
- Business model options
- Funding and financing strategies

Economic Impact

The scale of the high-speed rail program in California is almost without precedent. Its benefits and costs need to be considered in the context of other landmark statewide infrastructure programs, such as the development of the freeway system and the state water project.

The development of the 2012 Business Plan has included the most comprehensive and well vetted economic benefit analysis yet conducted of California's HSR system. The methodology for the analysis was vetted through a series of statewide workshops with leading academics, representatives of metropolitan planning organizations, councils of governments, economic development agencies, and other policy and planning groups. The analysis was based on a peer-reviewed and updated travel demand model, updated inputs, and best practices from federal and state review agencies.

The results reinforce the value of investing in the development and implementation of a statewide high-speed rail system in California. It can drive significant job creation and economic growth both in the near term and over the life of the program. Because of its scale, those benefits will be realized throughout the State. Some of the key economic benefit findings include:

- A benefit-cost ratio of 1.64-1.86. That is, discounted public benefits over the extended life of the investment range from 64% to 86% higher than the discounted costs. Industry-standard definitions were used in making this determination. Public benefits include travel time and reliability savings both for train users and highway and air travelers. Benefits also include environmental and safety benefits, energy savings, and other factors. Full costs include initial capital construction, yearly operations and maintenance, and periodic rehab and replacement of equipment and systems.
- Construction of Phase I will generate 800,000 to 900,000 temporary jobs. Direct investment and additional income will generate multiple rounds of economic activity, both in construction trades and throughout the entire state economy.
- Central Valley job demand arising from construction of the ICS will range between 64,000 and 73,000. Construction of the ICS will be highly positive for the Central Valley economy, which significantly lags the rest of the State in rates of employment and personal income.

- After Phase I is fully in place, 7,200 permanent jobs will be created to operate and maintain the system.
- Completion of Phase I will produce as many as 400,000 – 500,000 new jobs spread across all economic sectors and regions in California. These permanent new jobs arise due to greatly improved connectivity and reduced congestion from the HSR, through which California's economy will become more efficient, productive, and competitive, and business will have much greater access to labor and other markets. Key economic sectors and clusters – such as technology – will expand output and hire more workers as businesses can better access legal, financial, and other business services, and can work more effectively with research institutions, vendors and suppliers, and others. Job impacts will increase over time, as highway and aviation congestion worsen and the travel benefits of HSR service increase.

Continuing population growth and other factors will continue to drive the need for greater capacity in the State's transportation system. The HSR system would provide a significant increase in sustainable capacity for the State's future growth. The economic analysis also evaluated the costs and expansions needed to provide that same capacity through other means. Assuming that such expansions would be feasible, doing so would require an estimated \$90-100 billion of investment in:

- 2,500 lane-miles of highway
- 100 additional gates at airports in California
- 4 new airport runways
- Over 60% more land than needed for HSR

Business Model Options

On the subject of the Authority's consideration of business model options for delivering and operating the system as effectively as possible, the 2012 Business Plan continues to discuss the key criteria for selection among business model options throughout the phased development of the system. The primary issue is the role of the private sector in development and operation of the system, and the timing of the private sector participation. The options for private involvement must address two key objectives:

- Generate more funds
- Contain costs and risks

A presentation related to some of the key considerations and anticipated business models will be made at the Board meeting.

Funding and Financing Strategies

On the subject of the funding and financing strategies, the 2012 Business Plan continues to address the need for multiple funding sources to supplement the \$9 billion in state funding established for the system in the Bond Act approved by voters in 2008. The State's primary funding partner for the system remains the federal government, as already evidenced by the important role that federal funding has played in advancing the ICS. Among the topics to be addressed in the 2012 Business Plan is the need to continue to enhance and expand the funding and financing tools available

through the federal government over the life of implementing the system. Other funding and financing strategies to reflect the contributions of local governments and private participation also will be addressed in the 2012 Business Plan. A presentation related to some of these key funding and financing strategies will be made at the Board meeting.

Funding Plan

Among the requirements for the Funding Plan is the identification of a corridor or “usable segment” for which the Authority is requesting the investment of the bond proceeds.

The Authority has previously developed, considered and approved criteria for selection in order to comply with both the requirements of the American Recovery and Reinvestment Act/FRA requirements and the requirements of the Bond Act. The selection criteria were approved by the Board at the November 4, 2010 meeting.

The Authority then considered at the December 2, 2010 meeting various alternatives for designation of the ICS. The Board approved a selected ICS and subsequently has approved extension of the ICS to reflect the availability of additional federal funding.

The phasing plan reviewed last month by the Authority included two options for what was called the initial operating section (the IOS) that would extend beyond either end of the above-referenced ICS:

- IOS-North: Extending from the northern end of the ICS to Merced and San Jose
- IOS-South: Extending from the southern end of the ICS to the San Fernando Valley

Both of these would meet the definition of a usable segment and have the ICS as a common element. To preserve flexibility and optimize performance, the Authority intends to determine at a later time which of these two usable segments will advance first. The Funding Plan can be prepared to provide all required information for both.

Recommendations

Business Plan

Absent other guidance from the Board, Authority staff intends to incorporate the topics discussed above into the 2012 Business Plan, for which a draft will be released for public comment following presentation at the Board’s October meeting.

Funding Plan

Absent other guidance from the Board, Authority staff intends to bring the Funding Plan to the Authority’s October meeting for approval.